

I.E. office market is 3rd hottest

By Michael Rappaport
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Partly it's that old standby — cheap dirt — but there are plenty of reasons the San Bernardino-Riverside office market is now the third hottest in the country.

Only Manhattan — the one in New York — and Orange County rank above the local market, according to Marcus & Millichap's 2006 National Office Report.

The Inland Empire was fourth in 2005.

"We're not surprised at all," said Joe Cesta, sales manager in Marcus & Millichap's Ontario office. "This area has a lot of things going for it, and it could move even higher on future lists."

Among those is price.

"Someone building out here knows they're not going to have to spend \$800 a square foot," Cesta said.

Indeed, the most expensive new properties in the Riverside area are trading near \$200 per square foot, with the area averaging about \$151.

"There are really four factors," Cesta said. "Overall affordability is first, then construction costs, available land and population increases. All those factors are working to bring a better quality of tenants to the area."

The demand for large, investment-grade buildings in the area is strong, as shown by a 27 percent jump in prices from last year to \$183 a square foot. Smaller properties are strong in the San Bernardino/Redlands/Colton market.

After a record-growth year last year, Marcus & Millichap says developers have more than 4 million square feet of new office space in the planning pipeline.

"The Inland Empire is growing into its own entity," Cesta said. "It's cheaper across the board than Los Angeles and it's big enough now that companies feel like they need to be here."

One city benefitting a great deal is Rancho Cucamonga, with its high-end retail and restaurants, as well as its location near freeways and Ontario International Airport.

Chief economist Jack Kyser, of the Los Angeles County Economic Development Corp., says the massive growth in the Inland Empire has made it necessary for businesses to be here.

"You have a lot of financial-service firms feeling they need to be in the area," he said. "It's a big enough market now that they feel they have to compete from inside the area."

Regional economist John Husing of Redlands says two factors driving the growth are home building and the migration of people with college degrees to the area.

"Last year 6.6 percent of the new homes in California were built in Orange County," Husing said. "We had 52.3 percent of the new homes in the state here in the Inland Empire. That has translated in a lot of residential real estate companies and the ancillary professionals that go along with them moving from Orange County into the Corona/South Riverside area."

In addition, the area gained nearly 82,000 residents with bachelor's degrees or higher between 2000 and 2004, according to the Census Bureau.

"You need that kind of professional if you're going to have an office-based economy," Husing said.

All these factors lead to a bright future.

"Look at the office economy," Husing said. "It's a very aggressive picture for growth."